



Looking for Funds in All the Wrong Places

How Out-of-District Fundraising
Weakens Democracy in North Carolina

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Table of Contents

Executive Summary	5
Introduction	7
The Role of Money in Elections	8
Out-Of-District Contributions	9
Policy Recommendations	14
Methodology	16
Notes	18

Executive Summary

Out-of-district financial contributions from special interests and wealthy individuals undermine democracy in North Carolina by reducing the influence of citizens who live in a candidate's district. North Carolina should adopt a public financing system for legislative campaigns to address this problem.

Campaign contributions influence who runs for office and who wins.

- Before deciding whether to enter a race, candidates assess their ability to raise campaign funds. Those candidates who fear they will be badly outspent by their opponent—perhaps because of less willingness or ability to raise money from corporate interests, or less personal wealth or fewer wealthy friends who will contribute to the campaign—may decide to forgo a run for office.
- Candidates give careful consideration to their fundraising ability because money plays such a key role in determining who will win. In North Carolina races, typically the candidate who raises the most money wins the

election. In the state's 2002 elections, only 11 percent of winning candidates were outspent by their opponent.

Campaigns for seats in the North Carolina House and Senate are heavily funded by donors from outside the candidates' districts, and even from out of state.

We analyzed contributions to 10 powerful members of North Carolina's Legislature during their 2006 campaigns to determine how much funding came from outside the candidates' districts.

- On average, 74 percent of funding came from outside the district, including 14 percent from outside the state.
- The average in-district contribution was \$312, while the average out-of-district contribution was \$1,167.

Contributions from individuals were more likely to come from within the district than were contributions from political action committees (PACs). However, candidates raised more money from committees outside their districts than from individuals in their districts.

- On average, 62 percent of funds from individual contributions came from citizens within the candidate's district. In contrast, 1 percent of funds from PAC contributions came from within the district.
- Together, the candidates raised \$750,000 from individuals and \$1.1 million from PACs.

This analysis is not intended as a criticism of these ten individual office-holders, but rather as an illustration of a systemic problem that affects all legislators. North Carolina's current campaign finance system encourages candidates to raise money from wealthy individuals and powerful interests, wherever they are located. The result is that a small number of powerful out-of-district

interests and wealthy donors heavily influence the outcome of North Carolina's elections, even if these contributors have little connection to a candidate's home district. Thus, while the fundraising of the 10 candidates included in this report is not inappropriate, illegal or corrupt, it is symptomatic of a broken system for financing political campaigns.

Establishing a public financing system for North Carolina's legislative elections would prevent special interest money from overwhelming the interests of ordinary citizens. Under a public financing system, candidates who collect a requisite number of qualifying small contributions from voters would be eligible for public funding for their campaigns, reducing the role of out-of-district contributions in the state's elections.

Introduction

North Carolina election law states that only residents of an election district may vote there. When registering to vote, a citizen must sign a statement confirming that he or she has been a resident of the voting district for at least 30 days before the coming election.¹ Signing this statement falsely can be prosecuted as a felony. The law helps to ensure that an elected official will represent the interests of people in that district.

In contrast, North Carolina's campaign finance law says nothing about the residency of wealthy individuals and powerful interests that give money to campaigns. Individuals, corporate interests and political action committees are allowed to give money to a candidate anywhere in the state, regardless of whether they can vote for that candidate.

Though technically only voting determines which candidate wins a race, money plays a very important role in determining who represents North Carolina voters in the Legislature. Success in fundraising is a determining factor in a candidate's victory or loss. In North Carolina's 2002 elections, only 11 percent of winning candidates were outspent by their opponent. The other 89 percent of successful candidates either

raised more money than the losing candidate or ran without major opposition.²

Money does more than directly influence who wins and who loses. It also influences potential candidates' decisions about running for office. Candidates know that they must raise hundreds of thousands of dollars if they are to run a competitive campaign. Individuals without personal and corporate connections that enable them to raise large amounts of money may be discouraged from running for office. Yet, such an individual could be the best person to represent the district. Thus, the need to raise large amounts of campaign funds influences who enters the race and the choice of candidates available to voters.

North Carolina's current system of campaign financing—in which campaigns are funded by wealthy individuals and powerful interests across the state or outside of North Carolina entirely, rather than primarily by people within the district that the candidates hope to represent—limits the influence of ordinary citizens and voters. By establishing public financing for campaigns, North Carolina can protect voters' influence over who will represent them in the state Legislature.

The Role of Money in Elections

Campaign contributions influence who runs for office and who wins. Before deciding whether to enter a race, candidates assess their ability to raise campaign funds. Those candidates who fear they will be badly outspent by their opponent—perhaps because of weaker ties to corporate interests, less personal wealth or fewer wealthy friends who will contribute to the campaign—may decide to forego a run for office.

As discussed in the introduction, money plays a key role in determining who wins elections. A national study of primary elections—where gerrymandering of district lines plays no role in determining who wins or loses—showed that the candidate who raised the most money won 92 percent of the time.³ The need to raise so much money discourages some candidates from even entering the race.

The fact that some candidates may not choose to run for office because they can-

not raise enough money has been well documented for campaigns at the federal level. *Look Who's Not Coming to Washington*, a report by the U.S. Public Interest Research Group Education Fund in 2003, profiled numerous candidates who—despite being current office holders or otherwise qualified candidates—decided not to run for higher office because they lacked the personal wealth or financial connections necessary to raise hundreds of thousands of dollars for a campaign.⁴

A candidate's connection to the community and ability to represent the citizens there thus can be overshadowed by concerns about fundraising. This is a loss for voters, who are given fewer options at the ballot box.

The analysis below focuses on one problem of North Carolina's current campaign finance system—the large percentage of funds that candidates raise from outside their districts.

Out-of-District Contributions

In the 2006 election, 170 seats in the North Carolina Legislature were up for election: 50 in the Senate and 120 in the House. To illustrate the problem of out-of-district financing of North Carolina's legislative elections, we examined the campaign finance records of 10 members of the Legislature, selecting six Democrats and four Republicans in keeping with the overall partisan balance in the Legislature. (See Table 1, p. 10.) We chose to focus on some of the most powerful members of the Legislature and selected candidates who were chairs or ranking minority members of the Appropriations Committees during this election cycle. These senators and representatives allocate millions of dollars in state spending each year.

Fundraising by these candidates may not be typical of the fundraising by all members of the North Carolina Legislature. Because of their power, these legislators are more difficult to challenge in an election and thus may not have to campaign—or fundraise—as much as other candidates. At the same time, their influence within the Legislature may induce more special interests to contribute to their campaigns in the hopes of better access.

This report is not intended as a criticism of these particular officials. Rather, their fundraising merely illustrates broader problems. Under North Carolina's current campaign finance rules, candidates for public office must raise large sums of money. The most successful candidates—such as those included in this report—are those who manage to raise the most money under these rules, often by turning to wealthy individuals and powerful interests. While the fundraising of these candidates is not inappropriate, illegal or corrupt, it is symptomatic of a broken system for financing political campaigns.

These candidates raised an average of \$187,000 from January 2005 through December 2006, ranging from a low of \$62,000 for Representative Beverly Earle to a high of \$422,000 for Senator Walter Dalton. Non-party committees, or political action committees (PACs), contributed, on average, 59 percent of funds. Contributions from individuals accounted for 40 percent of funds. Support from other candidates provided the rest. (We excluded contributions from political parties in our analysis.) (See Table 2, p. 10.)

Table 1. Candidates Included in this Study

Candidate	Chamber	District	Party	Leadership Position
Bill Owens	House	1	Democratic	Chair, Appropriations Committee
James Crawford	House	32	Democratic	Chair, Appropriations Committee
Joe Kiser	House	97	Republican	Former Minority Leader; Chair, Appropriations Subcommittee
Beverly Earle	House	101	Democratic	Chair, Appropriations Committee
Debbie Clary	House	110	Republican	Chair, Appropriations Committee
Philip Berger	Senate	26	Republican	Minority Leader; Appropriations Committee
Kay Hagan	Senate	27	Democratic	Chair, Appropriations Committee
Linda Garrou	Senate	32	Democratic	Chair, Appropriations Committee
Walter Dalton	Senate	46	Democratic	Chair, Appropriations Committee
Thomas Apodaca	Senate	48	Republican	Deputy Minority Leader; Member of Appropriations Committee

Table 2. Total Fundraising and Major Sources*

Candidate	Total	Percent from Individuals	Percent from PACs	Percent from Other Candidates
Walter Dalton	\$422,460	55%	45%	0%
Kay Hagan	\$295,116	63%	37%	0%
Philip Berger	\$284,065	25%	73%	1%
Thomas Apodaca	\$215,180	24%	73%	2%
Linda Garrou	\$195,406	52%	48%	0%
James Crawford	\$149,850	23%	77%	0%
Bill Owens	\$98,225	20%	80%	0%
Debbie Clary	\$77,281	41%	59%	0%
Joe Kiser	\$66,150	10%	90%	0%
Beverly Earle	\$62,305	21%	79%	0%
Total	\$1,866,038	40%	59%	0%

Note: Totals may not equal 100 percent due to rounding.

* Excludes receipts from political parties.

Most Funds Come from Out-of-District

These ten successful candidates raised the majority of their funds from sources outside the districts they represent. (See Table 3.) On average, just 26 percent of their funds came from donors residing in their districts. Senator Kay Hagan had the highest percentage of in-district contributions, with 48 percent of her funds coming from individuals and businesses within the district. Senator Linda Garrou was next, with 41 percent of contributions from in-district sources. At the low end, Representative Joe Kiser raised no money from within his district and Representative Beverly Earle raised just 8 percent locally.

The remainder of the funds raised by candidates came from other locations in North Carolina and around the country. Forty-five to 78 percent of contributions came from individuals and PACs elsewhere

in North Carolina, and 7 to 27 percent of contributions were from people and organizations outside the state. The 10 candidates received an average of 14 percent of their funds from individuals and PACs in other states. (See Table 3.)

Out-of-District Funds Typically Come from PACs

The majority of individuals who donate to a candidate live within the candidate's district. In contrast, most PAC funds come from outside the district. (See Table 4, p. 12.) On average, 62 percent of the funds raised from individuals come from people within the district, whereas only 1 percent of funds raised from PACs come from within the district.

There is substantial variation between candidates as to the percentage of individual

Table 3. Geographical Source of Contributions

Candidate	Total	Percent In-District	Percent In State but Out-of-District	Percent Out-of-State
Joe Kiser	\$66,150	0%	78%	22%
Beverly Earle	\$62,305	8%	66%	27%
Philip Berger	\$284,065	11%	71%	18%
Bill Owens	\$98,225	13%	74%	14%
Thomas Apodaca	\$215,180	13%	69%	18%
James Crawford	\$149,850	20%	69%	11%
Debbie Clary	\$77,281	21%	66%	12%
Walter Dalton	\$422,460	33%	54%	14%
Linda Garrou	\$195,406	41%	52%	7%
Kay Hagan	\$295,116	48%	45%	7%
Total/Average	\$1,866,038	26%	60%	14%

Note: Totals may not equal 100 percent due to rounding.

contributions that came from within their districts. None of Representative Joe Kiser's individual contributions came from within his district, but 85 percent of the individual contributions that Representative James Crawford received were from people within his district.⁵ No candidate received more than 6 percent of PAC contributions from within the district. (See Table 4.)

Because PACs give more money in total, contributions given by citizens within the district are overshadowed by out-of-district funds. The average in-district contribution was \$312, compared to \$1,167

average for out-of-district contributions. (See Table 5.) Even for Representative Crawford, whose individual contributions were predominantly from within his district, out-of-district PAC funds provided a much larger share of his campaign fundraising.

The end result is that, for these 10 candidates, the majority of their campaign funds came from sources outside the district in which they sought election. Money contributed by individual residents and voters within the district was overshadowed by money given by other interests.

Table 4. Relative Size of In-District Contributions from Individuals versus PACs

Candidate	Total Contributions from Individuals	Total Contributions from In-District Individuals	Percent of Individual Contributions from In-District	Total Contributions from PACs	Total Contributions from In-District PACs	Percent of PAC Contributions from In-District
James Crawford	\$35,050	\$29,850	85%	\$114,800	\$100	0%
Kay Hagan	\$185,754	\$138,367	74%	\$109,363	\$4,250	1%
Linda Garrou	\$102,406	\$73,714	72%	\$93,000	\$6,000	3%
Bill Owens	\$20,025	\$12,500	62%	\$78,200	\$0	0%
Walter Dalton	\$233,860	\$137,890	59%	\$188,600	\$0	0%
Debbie Clary	\$31,573	\$16,713	53%	\$45,650	\$0	0%
Thomas Apodaca	\$52,610	\$24,352	46%	\$158,070	\$3,970	3%
Philip Berger	\$71,465	\$31,340	44%	\$208,600	\$1,250	1%
Beverly Earle	\$12,955	\$2,011	16%	\$49,350	\$2,750	6%
Joe Kiser	\$6,750	\$0	0%	\$59,400	\$0	0%
Total/Average	\$752,448	\$466,737	62%	\$1,105,033	\$18,320	1%

Table 5. Average Size of In-District versus Out-of-District Contributions

Candidate	Average In-District Contribution	Average Out-of-District Contribution
Joe Kiser	\$0	\$1,084
James Crawford	\$138	\$1,103
Debbie Clary	\$235	\$924
Philip Berger	\$265	\$1,592
Bill Owens	\$278	\$1,207
Thomas Apodaca	\$303	\$1,494
Kay Hagan	\$323	\$874
Beverly Earle	\$373	\$590
Walter Dalton	\$385	\$1,239
Linda Garrou	\$438	\$1,256
Average	\$312	\$1,167

Policy Recommendations

This analysis of fundraising by 10 legislative candidates in the 2006 election shows that elections in North Carolina are highly influenced by wealthy individuals and powerful interests who live outside the candidates' districts. This lessens the influence of citizens over their representation in the state Legislature. It also creates a potential conflict of interest for officeholders. A candidate who raises large amounts of money from outside his or her district may feel beholden to special interests who want a different policy outcome than do voters in the district.

North Carolina should adopt full public financing of campaigns to prevent the voices and interests of ordinary citizens from being overwhelmed by outside interests.

A public financing system might work like this: candidates who want to receive public funds for their campaign would need to demonstrate genuine public support for their candidacy by raising a requisite number of small contributions from North Carolina registered voters in their districts. Public money—from a designated fund, perhaps supported by a tax return check-off—would then be available to the candidate

for campaigning. If both major candidates in a race have accepted public financing, funds would be capped at a certain level. If one candidate chooses to raise private funds, the publicly financed candidate would receive adequate public funds to maintain a level playing field. Because a publicly financed system of elections would eliminate the need for candidates to look outside of their districts for funding, candidates would have more time to spend listening to the concerns of voters.

North Carolina already has a public financing system for judicial elections. Since 2004, candidates for judicial positions have been able to choose to receive public financing instead of raising all their funds from private contributors. Candidates who wish to receive public funds must first receive \$10 to \$500 donations from 350 registered voters in North Carolina.⁶

A comparison between judicial fundraising for North Carolina Supreme Court seats in 2002 versus 2004 shows a significant decline in private fundraising as many candidates opted for public financing. Contributions from business groups, special interests and lawyers—parties who

might have a significant interest decided by elected judges—dropped from 73 percent of the funds judicial candidates raised from outside their immediate family in 2002 to just 14 percent in 2004.⁷

Receiving public financing has not placed candidates at a financial disadvantage. Publicly financed candidates whose opponents opt for a privately financed campaign receive public funds to match the amount raised by the opponents. The outcome of the 2006 election shows that publicly

financed candidates are competitive: five of the six winners of judicial races were candidates who chose public financing instead of traditional campaign financing.⁸

Public financing of campaigns would lessen the importance of funds from special interests and wealthy donors, whether they reside within or outside of a district. North Carolina has already demonstrated that publicly financed campaigns can be successful, and should pursue public financing for all candidates.

Methodology

Candidate selection

We selected five members from both the House and Senate Appropriations committees, choosing the three most powerful Democrats and the two most powerful Republicans in keeping with the overall partisan balance in North Carolina's Legislature. Generally, some of the most senior and influential legislators serve on the Appropriations committees because of the committees' power. Within the committees, we focused on the chairs and others who held party leadership positions during this election cycle.

Data Source

Partial campaign finance data were provided by the North Carolina State Board of Elections in database format. The Board of Elections' database was complete only for Sen. Garrou. The database for Sen. Apodaca and Representatives Clary and Crawford was complete through October 21, 2006. For the six other candidates, the database was complete through June 30, 2006. We hand-entered campaign finance reports—as submitted by candidates to the State Board of Elections and posted on the Board of Elections' website—that were

needed to complete the data for all of 2005 and 2006 so that we could analyze contributions from the entire 2006 election cycle.

No address was provided for some contributors. We entered addresses for as many contributors as possible, using addresses listed next to other contributions from the same contributor. In cases where a PAC or company operates from multiple offices and we could not determine which office a contribution came from, we did not insert any address. We calculated the in-district or out-of-district percentage of those contributions as described below.

We excluded a loan made by Sen. Apodaca to his own campaign. We also excluded contributions and other receipts from political party committees.

In-District versus Out-of-District Contributions

Each contribution from an individual was identified as in-district or out-of-district based on the donor's zip code. If any portion of the zip code was contained in the candidate's district, the contribution was assumed to be in-district, even when the majority of a zip code lies in another district. The figures in this report thus likely un-

derstate out-of-district percentages to some extent. Contributions from individuals for which the only mailing address was a post office box were assumed to be in-district or out-of-district based on the zip code of the post office box.

Individual donors with no reported zip codes were assumed to be out-of-district in the same proportion as the contributions to each candidate which had reported zip codes. This affected only \$200 in contributions for Representative Earle, \$250 for Senator Apodaca, \$500 for Senator Garrou, and \$1,000 each for Representative Clary

and Senator Hagan. In some cases, the missing address information may be the result of an error in data received from the Board of Elections.

All contributions reported as “aggregated individual contributions” of \$100 or less were assumed to be in-district. The \$640 that Senator Dalton received at a BBQ fundraiser was assumed to be from small donors and therefore was treated as in-district.

Contributions from political action committees were coded as in-district or out-of-district based on the location of the company’s or PAC’s mailing address.

Notes

1 North Carolina State Board of Elections, *North Carolina Voter Registration Application/Update Form*, August 2005.

2 Democracy North Carolina, *2002: Big Money in Legislative Races*, 4 April 2003.

3 Adam Lioz and Gary Kalman, U.S. Public Interest Research Group Education Fund, *The Wealth Primary: The Role of Big Money in the 2006 Congressional Primaries*, November 2006.

4 Adam Lioz, U.S. Public Interest Research Group Education Fund, *Look Who's Not Coming to Washington: Qualified Candidates Shut Out By Big Money*, January 2003.

5 Representative Kiser received no small contributions from unidentified individuals and \$6,750 from identified individuals, none of whom live in his district.

6 North Carolina Center for Voter Education, *The Public Campaign Fund*, downloaded from www.ncjudges.org/jcra/pcf.html, 6 March 2007.

7 Democracy North Carolina, *A Profile of the Judicial Public Financing Program*, June 2006.

8 Common Cause North Carolina, *Public Financing Wins Big in North Carolina*, downloaded from www.commoncause.org/site/pp.asp?c=dkLNK1MQIwG&b=1739113, 6 March 2007.

